

# Report of the auditor-general to the Western Cape Provincial Legislature and the council on Overberg District Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Overberg District Municipality set out on page 4 to 105, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Overberg District Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

### Context for the opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

7. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2018 have been restated as a result of errors discovered during 2018-19 in the financial statements of the municipality for the year ended 30 June 2019.

### **Unauthorised, irregular and fruitless and wasteful expenditure**

8. As disclosed in note 43.1 to the financial statements, the municipality incurred unauthorised expenditure of R16 424 967, due to overspending of the operating and capital budget votes mostly due to non – cash items not accounted for in the budget.

### **An uncertainty relating to the future outcome of exceptional regulatory action**

9. With reference to note 52.2 to the financial statements, the municipality claimed VAT inputs relating to expenditure incurred on the Roads Maintenance function on the basis that they are a service provider, while in terms of the VAT Act the municipality is considered an agent. This raised the possibility to repay the VAT claimed from SARS. The municipality is in process of engaging with SARS on the matter. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

### **Other matters**

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited disclosure notes**

11. In terms of section 125(2)(e) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **Unaudited supplementary schedules**

12. The supplementary information set out on pages 106 to 120 of the financial statements does not form part of the financial statements and is presented as additional information. I have not audited this information and, accordingly, we do not express an opinion thereon.

### **Responsibilities of the accounting officer for the financial statements**

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an



auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

Objective	Pages in the annual performance report
Strategic Goal 1: To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure	50 – 53

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for this objective:

- Strategic Goal 1: To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure

## **Other matters**

22. I draw attention to the matters below.

### **Achievement of planned targets**

23. Refer to the annual performance report on pages 50 to 53 for information on the achievement of planned targets for the year.

### **Adjustment of material misstatements**

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Strategic Goal 1: To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

25. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

### **Annual financial statements**

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements in the disclosure notes identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

27. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
28. Some of the bid documentation for procurement of commodities designated for local content and production, did not stipulated the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).



29. Some of the commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation.
30. Some of the commodities designated for local content and production, were procured from suppliers who did not meet the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5).

#### Other information

31. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
32. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
33. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
34. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
35. I have nothing to report in this regard.

#### Internal control deficiencies

36. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

#### **Regular, accurate and complete financial and performance reports**

37. The financial statements contained numerous misstatements mainly due to staff not fully understanding the requirements of the financial reporting framework.

## Compliance monitoring

38. The municipality's systems of controls was not able to prevent, detect and correct invalid deviations when they occur.
39. Monitoring and review controls were not sufficient to prevent non-compliance with the requirements of the Preferential Procurement Regulations.

*Auditor-General*

Cape Town

30 November 2019



AUDITOR-GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Overberg District Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

